

U.S. Virgin Islands Economic Conditions Bureau of Economic Research

August 2015

Economic Overview

Economic Highlights

Government revenues were mixed for fiscal year-to-date June 2015. Individual, corporate, and property tax were up 4.5 percent, 15.1 percent, and 213.4 percent, respectively. Trade and excise fell by less than one percent. While gross-receipts rose by 1.5 percent and the hotel room tax was up 8.7 percent.

There was employment small growth in federal jobs, arts and entertainment, accommodation and food sectors.

In second quarter of fiscal year 2015, HOVENSA closed the oil storage terminal and release the remaining workers.

The civilian employment averaged 42,444 for the three-quarters of the year.

The Territory's unemployment rate is 12.2 percent. The rate for St. Thomas/ St. John is 11.3 percent and 13.3 percent for St. Croix.

A total of 2,263,307 visitors came to the Territory in the nine-months of the fiscal year—610,392 air visitors and 1,652,915 cruise passengers.

The performance of the economy so far this year has been variable and, judging by revenue growth and a few other indicators, the downward trend in economic conditions appears to be moderating. There has been a pickup in growth of government tax revenues, aided by aggressive property tax collections, and modest improvement in the labor and housing markets. However, the partial recovery that has materialize has been uneven, with weaknesses persisting in the labor market and sectors of the economy.

Government revenues for the first nine months of fiscal year 2015 showed improvement compared to one year earlier. Individual income and corporate tax revenues increased 4.5 percent and 15.1 percent, respectively. Property tax revenues grew 213.4 percent during the period compared with fiscal year 2014. Gross business receipts rose 1.5 percent, hotel room tax increased 8.7 percent, but trade and excise fell by less than one percent. Overall, tax revenues for the first three quarters of the fiscal year increased 24.6 percent over last year.

The Territory has experienced small increases in jobs in food services, and arts and entertainment sectors. Other sectors including manufacturing, goods and services producing industries, and financial activities continue to post job losses. Initial claims for unemployment insurance averaged 209 for fiscal year-to-date June 2015, compared with the 227 claims filed during the same corresponding period a year earlier.

Total visitor arrivals remained at the level as one year ago. Even though air arrivals showed growth of 7 percent over 2014, a 2 percent drop in cruise passenger arrivals subdued overall visitor arrivals. Other economic indicators were also mixed. The latest data on real estate transactions in 2014 revealed that the overall number of homes sold and the value of sales have increased. In construction, total value of permits declined over the last nine months of fiscal year 2015.

Economic Outlook 2016

Although there is optimism for improvement in the local economy in the longer-term driven by a stronger U.S. private sector, economic growth is expected to continue to be slow and uneven. The structural imbalance of the government, high unemployment, and slow pace of private spending remain pressing issues impeding a broader and more sustained recovery.

Policy and Initiative

To address the 2015 budget gap, the newly elected Governor submitted to the VI Legislature in May 2015 three bills intended to balance the fiscal year 2015 budget. The first bill was to lift a cap on revenue anticipation notes the government may issue from \$40 million to \$60 million. The notes are to be repaid within 24 months. The second bill allows for immediate borrowing based on 2015 property taxes. The final bill authorizes the Lieutenant Governor's Office to release property tax bills in August 2015. The bills were approved by the Senate in July 2015.

Turning to other policies and initiatives, the government announced a series of measures to improve its fiscal position and restore economic health. These measures include: aggressive collection of delinquent taxes owed; provide assistance in expediting the Water and Power Authority propane conversion project; embark on the construction of public sector capital projects; improve usage of viNGN broadband network; create a five-year fiscal stability plan; leveraging of federal funds for hiring; and increase the hotel occupancy tax rate from 10 percent to 12 percent to provide greater resources to market the Territory and for other program services.

The Governor convened the first Comprehensive Economic Development Strategy (CEDS) meeting in August 2015. Presentations were made on the overall objective of the CEDS and St. Croix's Gallows Bay Expansion Project which is listed as

a 2015 CEDS Priority Project. The CEDS Plan provides a policy framework for the socio-economic development of the U.S. Virgin Islands. The CEDS Plan is a statement of objectives for the Territory as a whole and for individual sectors of the economy. It sets priorities of economic policy, and proposes a program of economic measures and methods for the achievement of the objectives.

The VI Bureau of Economic Research (BER) submitted a 2015 Comprehensive Economic Development Strategy (CEDS) Plan, which was approved by the U.S. Economic Development Administration. Additionally, the Bureau completed in December 2014 a Target Competitive Industry Study. The Target Competitive Industry Study examined potential industries that can be developed within the Territory. A few industries that were identified for development or expansion were Agribusiness, Information Technology, Financial Services, High Value Manufacturing, Transportation and Logistics.

The Bureau will also undertake in Fall 2015, an Employer and Business Needs Study. The study will provide empirical data to understand the factors influencing the demand for labor and types of skills, so as to better align labor market skills to the needs of industries that may build economic resiliency and promote job creation and retention.

The VI Economic Development Authority was awarded from the U.S. Treasury Department \$4.3 million in State Small Business Credit Initiative (SSBCI) funds, to help small businesses access the capital they need to grow and create jobs. The funds are designed to help spur new private sector lending or investments in small companies by leveraging the federal support offered by the program.

Approximately, 412 jobs have been retained and it is estimated that another 115 jobs will be added

due to this program. Since the implementation of this program, \$8.6 million in SSBCI funds have been disbursed to the US. VI Economic Development Authority to support small businesses and the local economy.

The Water and Power Authority (WAPA) has continued its efforts to diversify its energy portfolio and modernize the plants' infrastructure. The utility's efforts have led to a reduction in power cost to both commercial and residential ratepayers. In January 2015, contracts were signed for an additional six megawatts of solar power on St. Croix. WAPA is in contract negotiations for three more megawatts of solar energy within the St. Thomas and St. John district.

The \$150 million Liquefied Petroleum Gas (LPG) project is slated to come online in Fall 2015. St. Croix is scheduled for September 2015, while the St. Thomas and St. John district will be online by November 2015. Additionally, the utility's combustion turbines will also be allowed to burn Liquefied Natural Gas (LNG) in addition to propane gas and fuel oil.

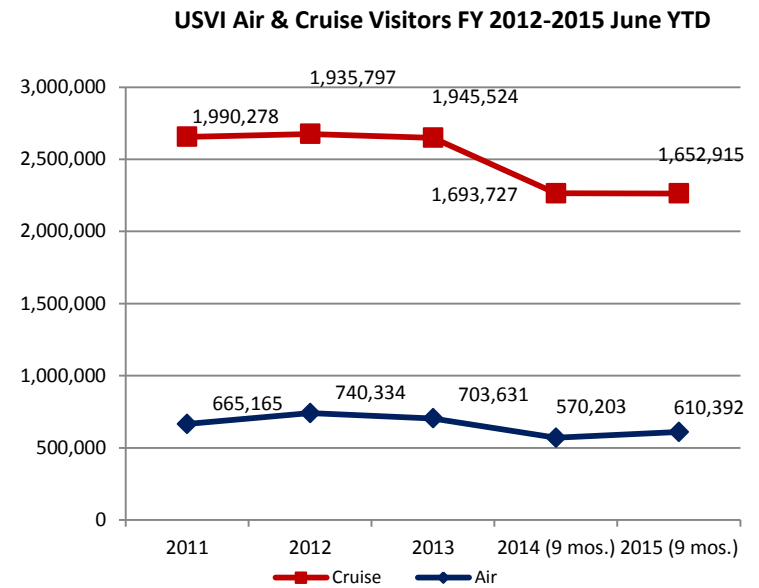
Sector Activity and Labor Market Conditions

Tourism

The number of visitors to the Territory increased less than one percent for the nine months of fiscal year 2015 to 2,263,307 from 2,263,930 for the same period in fiscal year 2014. Air arrivals grew a strong 7.0 percent, while cruise passenger arrivals were at same level a year earlier. There were 610,392 air visitors during this period compared to 570,203 air visitors for fiscal year 2014. There were 1,652,912 cruise passengers compared to 1,693,727 the year before.

There was a gain of direct major carrier seats during first nine months of fiscal year 2015. There was an average 17,300 major carrier direct seats in fiscal year 2015 compared to 15,980 seats for the

corresponding period in fiscal year 2014, an increase of 8.3 percent.



Overall, air visitor arrivals continued to perform well since April 2014. Creative marketing and promotional efforts by the Department of Tourism such as the 2015 *VI Nice Summer Promotion* and *Get Hooked on St. Croix* were successful in bringing visitors to the Territory. Other promotional initiatives and events include *Family Reunion*, *America's Paradise Music Festival 2015* and *Intimate Treasures*- a visitor's experience of the islands' boutique hotels. Moreover, Delta's flights to St. Croix from Atlanta were scheduled to end the second week of May 2015, the route was extended to August 2015. Delta is scheduled to return to the St. Croix district in December 2015.

Some 46 cruise ship calls are scheduled for St. Croix during October 2015-April 2016, bringing 135,221 passengers and 45,620 crew members. Ships visiting St. Croix include Royal Caribbean's *Jewel of the Seas* and *Adventure of the Seas*, Carnival's *Glory*, *Pride*, and *Sunshine*. The Celebrity Cruise Line's *Constellation* and *Holland America's Rotterdam* and *Eurodam* are also expected to visit St. Croix's shores.

In the St. Thomas and St. John district the West Indian Company Limited is projecting 375 calls

and 1,252,351 passengers for winter season 2015-2016. Three new mega ships are scheduled to make maiden calls; *The Norwegian Escape*, *Royal Caribbean Anthem of the Seas* and *Carnival Magic*.

Tourism arrivals sector will see a bump in flights for winter season 2015-2016, stemming from a return of major carriers and charter flights. JetBlue Airlines will offer five weekly departures to New Englanders from Boston Logan International Airport to Cyril E. King Airport and Minnesota based Sun Country is expected to add additional flights to St. Thomas during the winter season.

On St. Croix, Bravo Tours a Danish charter company that has partnered with the Department of Tourism since 2011 will return in late Fall 2015 to begin weekly arrivals of Danish visitors to the island of St. Croix. In 2014, Danish visitors staying in visitor accommodation establishments topped 10,901.

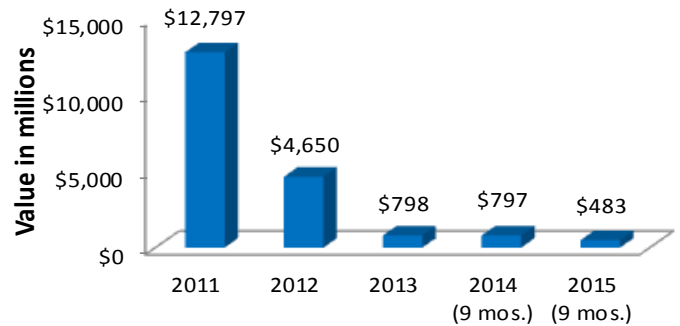
Manufacture

The manufacturing sector now accounts for 2 percent of jobs. Businesses in this sector include fabricators, concrete firms, the distilleries, and small firms producing goods. These establishments have an average workforce of 20 employees. Prior to the closure of the refinery, the sector accounted for 5 percent of the Territory's jobs and accounted for 21-25 percent of Gross Territorial Product (GTP). There was an average 610 manufacturing jobs versus the 646 reported in fiscal year 2014, a loss of 5.5 percent.

Oil Industry

Refined petroleum products shipped to the United States and other countries, included gasoline, kerosene, jet fuel, distillate fuel oils, residual fuels and lubricants. Roughly \$483 million of refined petroleum products was exported in fiscal year 2015—a 39.4 percent decline over the previous fiscal year.

**Value of Refined Petroleum Exports
FY 2011-2015 June YTD**



The exported products are from oil companies that import refined products for consumption within the Territory, but also export fuels to other destinations. HOVENSA stopped exporting refined petroleum products in 2014. In fiscal 2011, the value of exported petroleum products was \$12.7 billion.

HOVENSA, L.L.C., a joint venture between a subsidiary of Hess Corporation and a subsidiary of Petroleos de Venezuela, S.A. (PDVSA) cited \$1.3 billion in losses in calendar years 2008-2010 dismal market projection of the refining industry due to global economic conditions. The corporation discontinued oil refinery operations in February 2012.

In the second quarter of fiscal year 2015, HOVENSA closed the oil storage terminal and release the refinery's remaining employees. During the height of refinery operations, the company employed about 2,000 employees. The number included HOVENSA employees and subcontractors. All remaining exported products were also shipped in spring 2015.

Most recently, HOVENSA reached an agreement with Limetree Bay Holdings, an affiliate of ArcLight Capital Partners, to purchase the oil terminal assets for \$184 million. The oil storage facility 13 million barrels of storage capacity, has

potentially up to 30 million barrels of capacity. Government officials estimated that the deal will create about 70 jobs in St. Croix in the oil storage terminal with a 13 million barrel capacity.

Rum Industry

Since the loss of HOVENSA, rum production has taken over as manufacturing strongest performer. The rum industry consists of two companies: Cruzan VIRIL, Ltd. and Diageo plc. Cruzan VIRIL, Ltd., produces nearly 9 million proof gallons of rum per year. Diageo plc, the world’s leading spirits, wine and beer company supplies the rum used to make all Captain Morgan branded products for the United States. The Diageo distillery has the capacity to produce 20 million proof gallons annually.

Rum produced in the US Virgin Islands is exported to the U.S. primarily in bulk, and sold to local and regional bottlers for sale under a variety of brands. Shipments for an eight-month period of fiscal year 2015 total 9,019,388 proof gallons compared to 10,470,109 proof gallons for the same period in 2014.

to the United States.

Watch industry

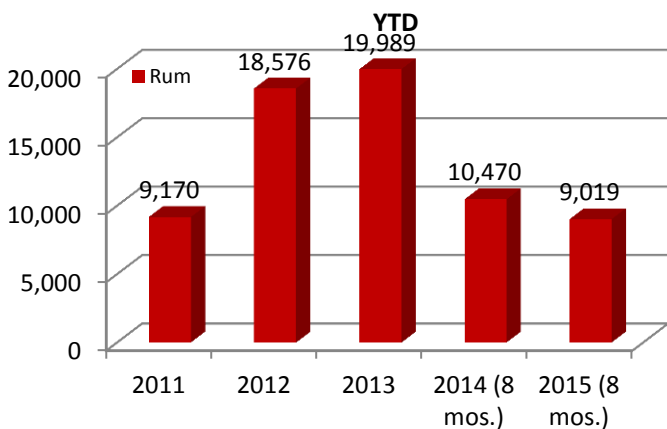
Output from the watch industry has declined significantly in recent years. The watch industry continues to struggle from high unit costs and increased competition. The industry is now comprised of one company. Approximately, 57,027 watches were exported in the three quarters of fiscal year 2015 up 1.7 percent from the 56,073 the previous year.

Construction

The number of construction jobs averaged 1,597 for the nine months of fiscal year 2015 compared to 1,655 for the corresponding period in fiscal year 2014.

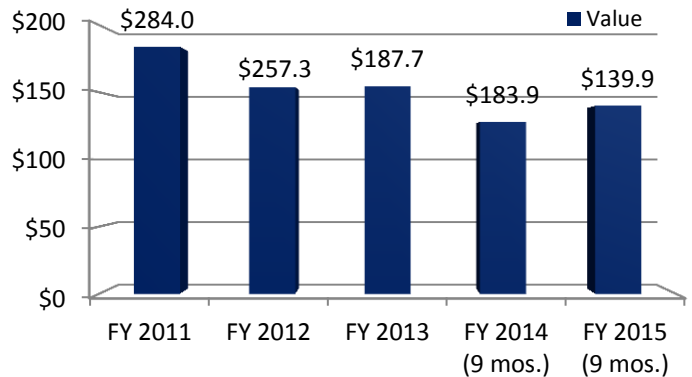
The value of total construction permits—an indicator of current and of future activity—declined by 13.0 percent in fiscal year 2014 from \$183.9 million to \$153.9 million. During the same period in fiscal year 2015 there was a loss of \$7.1 million in public projects permit value. Conversely, the nine months of 2015 permit value for private non-residential home rose to \$67.4 million from \$64.1 million in 2014. This represents an increase of 5.0 percent.

Rum Proof Gallons Fiscal Years 2011-2015 June



As a result of the increased production, the government has seen an increase in matching fund revenues. For eight months of fiscal year 2015, the government received \$125.9 million in rum excise taxes from the federal government, which imposes and collects federal excise taxes on rum produced in the Virgin Islands and exported

USVI Total Construction Permit Value FY 2011-2015 June YTD



Leisure and Hospitality

The leisure and hospitality sector jobs averaged 7,315, a year-on-year increase of less than one percent. Job growth is expected to occur during seasonal employment in winter season 2015-2016.

Trade, Transportation and Utilities

The trade, transportation and public utilities sector holds the second largest share of jobs in the economy, averaging 8,105 jobs during the nine months of fiscal year 2015—down 0.5 percent over the last fiscal year.

The trade sector plays a significant role in the Virgin Islands' economy, contributing over \$1 billion in sales or about 40 percent of sales annually and 19 percent of jobs in the economy. Retail trade, particularly, supports the trade sector.

Retail trade jobs, which represent 90 percent of the trade sector's total employment, were at the same level as in fiscal year 2014 averaging 5,864. Wholesale trade jobs averaged 765, down by 6.4 percent from last fiscal year. Jobs in the field of transportation, warehouse and utility decline by less than one percent to a nine-month average of 1,465 jobs.

Financial Activities, Real Estate, Professional and Business Services

Overall, real estate transactions in 2014 recorded growth in the number and value of homes sold from one year earlier. The number of homes sold in the Territory registered growth of 4.4 percent. The average value of the sale price of a home in the Territory was \$568,295 in 2014, up from \$538,369 in 2013. St. Thomas and St. John district average home prices increased by 8.4 percent from \$713,183 to \$772,770. St. Croix average 2014 home price was \$321,910 from \$306,083, an increase of 5.2 percent. Territory-wide, the sales price of condominiums was \$201,990.

The Financial Services sector, which holds a 6 percent share of total employment, averaged 2,169 year-on-year from 2,200 for the corresponding period in fiscal year 2014.

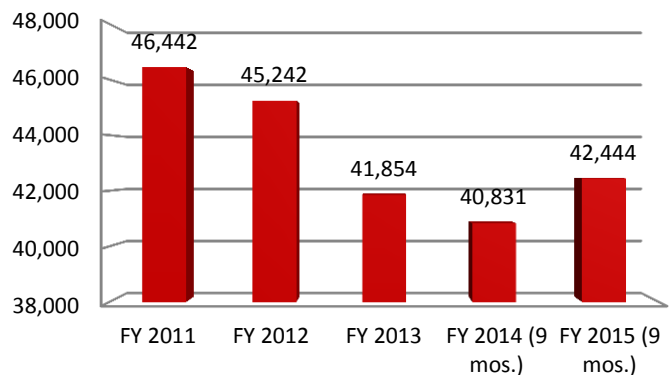
The combined total assets of commercial banks in the U.S. Virgin Islands at the end of 2014 were \$2,470.6 billion. Total assets fell by \$97.8 million or a 3.8 percent loss over the previous year's total assets of \$2,568.4 billion—mainly due to decrease credit from individual households and other personal lines of credit. Credit of \$1.4 billion accounted for 58 percent of total assets. Bank deposits—which consist of savings demand accounts, demand deposits and time deposits—declined by 1.3 percent or by \$27.7 million to \$2,175.6 billion from \$2,203.3 billion in 2013.

Jobs in the business and professional services sector are at the same level as one year earlier. For the three fiscal quarters, the number of jobs averaged 3,339 compared to 3,330 over the corresponding period in 2014.

Employment Trends

There were 42,444 persons employed in civilian jobs—19,087 on St. Croix and 23,357 on St. Thomas and St. John. This is a 4.0 percent increase from the 40,831 persons employed for the corresponding period in fiscal year 2014.

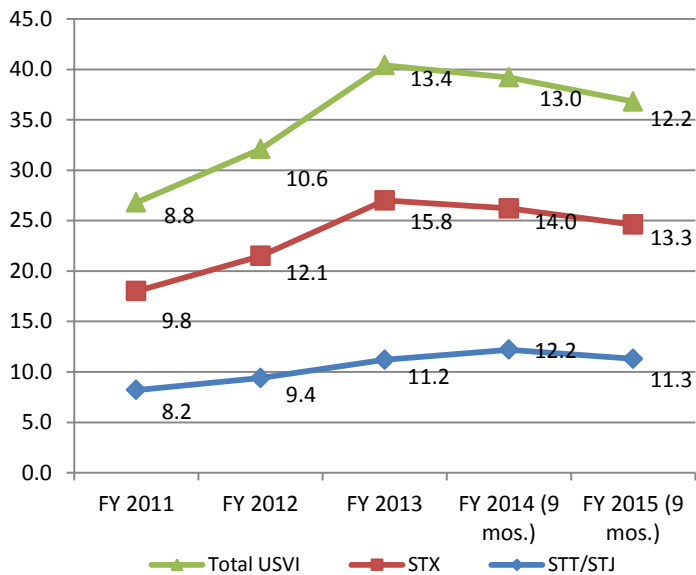
USVI Average Civilian Employment
FY 2011-2015 June YTD



The Territorial jobless rate declined from a high of 13.4 percent last year to 12.2 percent this fiscal year. The rate for St. Croix was at 13.3 percent for

the past nine-months, while the rate for St. Thomas and St. John was 11.3 percent.

USVI Civilian Unemployment 2011-2015 June YTD



Public-and private-sector employment

Wage and Salary Employment

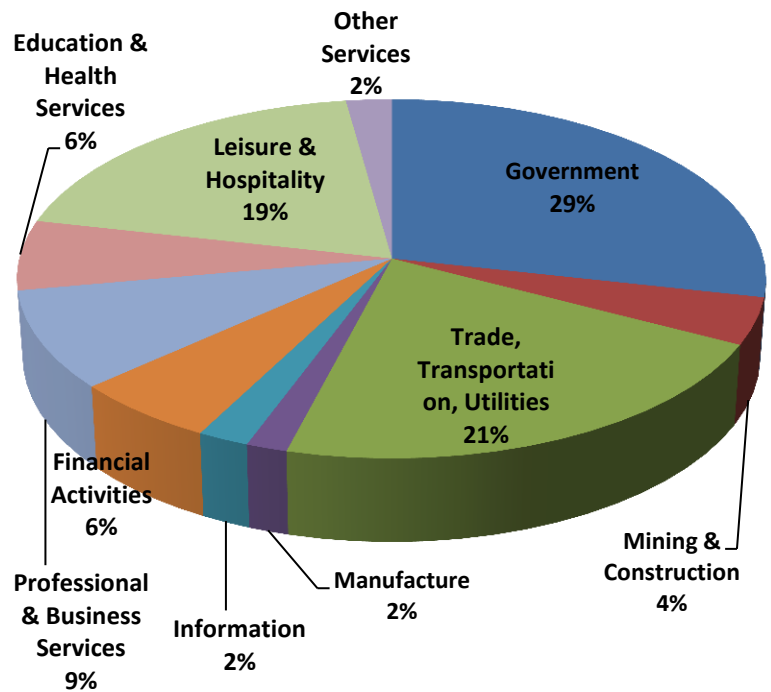
An average 37,872 persons were employed in nonagricultural wage and salary jobs compared to 38,271 last year— about 1.0 percent less. According to the Virgin Islands Bureau of Labor Statistics, the annual average salary in the Territory in 2014 was \$38,252. Total private sector annual salary wage was \$33,916. The public sector average annual salary was \$49,261.

Nine in ten of these jobs are in the service-producing industries and one in ten jobs is in the goods producing industries. Government; transportation and utilities; and leisure and hospitality are the industries with the largest number of jobs. These three sectors account for 69 percent of all jobs. Professional and business services, financial activities, and construction account for 9 percent, 6 percent and 4 percent, respectively. Manufacturing, Other Services, and Information account for 2 percent. Educational and health services account for 6 percent.

Public and Private Sector Jobs

Public sector jobs which comprise of 29 percent of total nonagricultural jobs were 10,830 compared to 10,760 for the same period last fiscal year. Federal government jobs averaged 958, one percent more than the 967 jobs a year ago. Growth in jobs were due to employment in the Transportation Security Administration. Local government jobs averaged 9,802, down 0.8 percent over fiscal year 2015. The decline is primarily due to local government workers retiring at the end of the fiscal year.

Percent of Nonagricultural Jobs, FY 2015



Private sector jobs account for 71 percent of wage and salary jobs. Job growth has been flat due to weaknesses in the economy. The private sector has added no significant number of jobs in the past nine months. There were 27,111 private sector jobs compared to 27,411 last year.

FISCAL YEAR ECONOMIC INDICATORS

United States Virgin Islands

2014 & 2015: 1st-3rd Quarter and Nine-Month Percent Annual Change

Series	1st QTR			2nd QTR			3rd QTR			9 MONTHS		
	2014	2015	% Annual Change	2014	2015	% Annual Change	2014	2015	% Annual Change	2014	2015	% Annual Change
Labor Force	47,135	46,720	-0.9	46,834	48,622	3.8	46,875	48,606	3.7	46,948	47,983	2.2
Civilian employed	40,900	40,774	-0.3	40,828	42,830	4.9	40,764	43,728	7.3	40,831	42,444	4.0
Civilian unemployed	6,235	5,946	-4.6	6,006	5,792	-3.6	6,111	5,878	-3.8	6,117	5,872	-4.0
Unemployment rate (%)	13.2	12.7	-	12.9	11.9	-	13.0	12.1	-	13.0	12.2	-
Total Nonfarm	38,178	38,006	-0.5	38,345	37,859	-1.3	38,289	37,749	-1.4	38,271	37,872	-1.0
Total Private	27,303	27,125	-0.7	27,551	27,164	-1.4	27,468	27,045	-1.5	27,441	27,111	-1.2
Production Sectors	2,289	2,278	-0.5	2,308	2,181	-5.5	2,307	2,162	-6.3	2,301	2,207	-4.1
Natural Resources & Construction	1,651	1,647	-0.2	1,665	1,581	-5.0	1,650	1,563	-5.3	1,655	1,597	-3.5
Manufacturing	638	631	-1.1	643	600	-6.7	657	599	-8.8	646	610	-5.6
Service Sectors	35,889	35,728	-0.4	36,037	35,678	-1.0	35,982	35,587	-1.1	35,969	35,665	-0.8
Trade, Transportation & Utilities	8,090	8,102	0.1	8,180	8,141	-0.5	8,154	8,072	-1.0	8,142	8,105	-0.5
Wholesale Trade	815	793	-2.7	824	789	-4.2	812	712	-12.3	817	765	-6.4
Retail Trade	5,805	5,842	0.6	5,866	5,861	-0.1	5,853	5,889	0.6	5,841	5,864	0.4
Transp., Warehousing, Utilities	1,470	1,467	-0.2	1,491	1,474	-1.1	1,490	1,453	-2.5	1,484	1,465	-1.3
Information	750	745	-0.7	745	742	-0.4	751	735	-2.1	749	741	-1.1
Financial Activities	2,218	2,164	-2.4	2,195	2,169	-1.2	2,188	2,175	-0.6	2,200	2,169	-1.4
Professional & Business Services	3,326	3,341	0.5	3,323	3,334	0.3	3,340	3,342	0.1	3,330	3,339	0.3
Education and Health	2,387	2,402	0.6	2,397	2,386	-0.5	2,383	2,389	0.3	2,389	2,392	0.1
Leisure & Hospitality	7,168	7,216	0.7	7,367	7,382	0.2	7,341	7,347	0.1	7,292	7,315	0.3
Arts and Entertainment	845	846	0.1	846	862	1.9	834	854	2.4	842	854	1.4
Accommodation & Food	6,323	6,370	0.7	6,521	6,520	0.0	6,508	6,493	-0.2	6,451	6,461	0.2
Accommodation	3,720	3,740	0.5	3,895	3,865	-0.8	3,884	3,837	-1.2	3,833	3,814	-0.5
Food Services & Drink	2,603	2,630	1.0	2,626	2,655	1.1	2,624	2,656	1.2	2,618	2,647	1.1
Other Services	1,074	877	-18.3	1,034	829	-19.8	1,003	824	-17.8	1,037	843	-18.7
Government	10,875	10,881	0.1	10,794	10,695	-0.9	10,821	10,705	-1.1	10,830	10,760	-0.6
Federal	947	955	0.8	945	958	1.4	945	961	1.7	946	958	1.3
Local	9,928	9,926	0.0	9,849	9,737	-1.1	9,876	9,744	-1.3	9,884	9,802	-0.8
General fund revenues (\$1,000)	103,624	148,963	43.8	157,052	168,525	7.3	226,009	241,678	6.9	480,651	550,796	14.6
Individual	52,223	68,980	32.1	85,994	76,190	-11.4	126,640	131,592	3.9	264,858	276,763	4.5
Corporate	4,660	14,958	221.0	12,410	16,915	36.3	39,372	33,109	-15.9	56,443	64,984	15.1
Real Property	12,561	25,481	102.9	12,561	25,481	102.9	4,407	27,120	515.4	22,526	70,600	213.4
Trade and Excise	5,137	6,168	20.1	5,137	6,168	20.1	6,546	6,224	-4.9	17,787	17,668	-0.7
Gross Receipts	29,043	33,376	14.9	40,950	43,771	6.9	49,044	43,633	-11.0	119,037	120,781	1.5
Hotel Room	2,435	2,477	1.7	2,435	2,477	1.7	8,699	7,868	-9.6	17,597	19,127	8.7
Visitor Arrivals	740,461	780,210	5.4	907,753	875,135	-3.6	615,716	607,962	-1.3	2,263,930	2,263,307	0.0
Air	157,940	168,424	6.6	218,236	229,949	5.4	194,027	212,019	9.3	570,203	610,392	7.0
Cruise	582,521	611,786	5.0	689,517	645,186	-6.4	421,689	395,943	-6.1	1,693,727	1,652,915	-2.4